

Blue Cross and Blue Shield of Texas in Dallas, Texas

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Blue Cross and Blue Shield of Texas (BCBS of Texas) has its headquarters in Dallas, Texas. Our most recent audit covered contract years 1988 through 1993 for administrative expenses and premium taxes and the contract period January 1, 1991 through October 31, 1993, for health benefits payments. The plan administered benefits for about 99,000 FEHBP subscribers in Texas during 1993, which represented 5.6 percent of the plan's total enrollees for that year. Also in 1993, BCBS of Texas paid over 1.5 million FEHBP claims, representing approximately \$265 million in health benefits payments.

We did not audit health benefits payments for 1987 through 1990 nor administrative expenses and premium tax charges for 1987 because of the expiration of the records retention period in each instance. A review of our previous audit of BCBS of Texas, covering contract years 1982 through 1986, revealed that the plan has continued its noncompliance in the areas of duplicate payments and coordination of benefits relating to Medicare.

As a result of this most recent audit, our auditors identified questioned costs for inappropriate charges to the FEHBP totaling \$7,017,223, including \$1,539,473 for lost investment income to the FEHBP trust fund. Listed below by audit category are several of the major findings resulting from our current audit.

Questioned Costs to FEHBP Total \$7,017,223

Health Benefits

To test BCBS of Texas's compliance with FEHBP health benefit provisions, we examined claim samples consisting of 2,291 claim lines, representing \$4,348,116 in health benefits payments made from January 1, 1991 through October 31, 1993. Among the costs we questioned were health benefits charges relating to improper coordination of benefits with Medicare (\$662,941), duplicate payments (\$172,809), interplan duplicate payments originally paid by another BCBS plan (\$3,117), noncovered private room charges (\$66,742), and failure to reject claims of terminated dependents (\$1,546). In addition, we noted problems with the timely crediting of health benefits payment refunds to the FEHBP as prescribed in its FEHBP contract, resulting in a loss of interest income amounting to \$1,454,095.

Inappropriate health benefits charges to the FEHBP for the period totaled \$2,361,250. We have recommended that OPM's contracting officer direct the plan to return this amount to the

FEHBP trust fund, along with implementing controls and procedures to avoid these and other problems described in our audit report. The BCBS Association has agreed to improve internal controls and provide additional training to BCBS employees to correct some of the deficiencies and other claim-related errors we noted in our audit. However, it continues to disagree with some of our findings and recommendations, while others are still under review, particularly those pertaining to the issue of coordination of benefits.

Administrative Expenses

We also examined administrative expenses charged to the FEHBP by BCBS of Texas to determine whether they were actual, necessary and reasonable expenses incurred in accordance with the contract and applicable federal regulations. As a result, we questioned \$766,809 in inappropriate charges. The following are examples of findings we identified in this area.

Excess leasing costs: During the contract years we reviewed (1988-1993), BCBS of Texas allocated leasing costs in excess of cost of ownership on its home office building. Inasmuch as federal regulations do not permit rental costs under a sale and leaseback arrangement to exceed normal cost of ownership, we calculated that the FEHBP was charged \$746,658 for excessive leasing costs. We have recommended to the contracting officer that this amount be disallowed. The association disagrees with this finding.

Disallowed marketing-related costs: In contract years 1990 and 1991, the plan allocated marketing sales conference expenses to a cost center that resulted in a charge to the FEHBP for unallowable selling expenses in the amount of \$10,123. The reason this is unallowable is that we consider this type of expense in the category of public relations and advertising costs. In addition, between 1989 and 1991, the plan charged the FEHBP \$16,700 for marketing costs related to the "Your Healthy Best" (YHB) program. In an agreement reached in 1994 with the BCBS Association, it was determined that OPM would disallow 60 percent of the YHB costs charged to the FEHBP from 1985 through 1990, and base costs incurred from 1991 through 1994 on FEHBP enrollment statistics. As a result, we determined that \$10,028 of the \$16,700 charged to the FEHBP from 1989 through 1991 was unallowable. The association agreed with both issues and stated that the funds would be returned to the FEHBP. We recommended that the contracting officer ensure that these amounts had been returned.

Cash Management

Cash management: The last major finding addressed in this audit concerns the plan's management of FEHBP funds from the letter of credit (LOC) account. The federal government pays its premiums to the plan through an LOC account managed by the Blue Cross and Blue Shield Association. Through its management of the LOC, the BCBS Association also has a responsibility in this matter. As we have mentioned in prior reports, plans should not be receiving funds from the LOC until their payments to health providers and/or subscribers have cleared their respective banks. We discovered that BCBS of Texas was receiving FEHBP funds on average almost eight days before such payments had cleared.

As a result of the BCBS Association's reimbursement procedure at that time, the plan maintained excess FEHBP funds on hand. Furthermore, we determined that the plan had commingled FEHBP funds with other income-producing accounts and had not credited to the FEHBP interest earned on those excess funds as required by its FEHBP contract.

Based on our review of this plan's cash management practices, we calculated that the federal government lost \$2,349,691 in investment income for contract years 1988 through 1993. We have recommended not only that the plan credit that amount to the FEHBP but that the contracting officer direct the BCBS Association to adopt immediately the "checks-presented" method of executing drawdowns under the LOC program.

Cash Management Practices Result in \$2,349,691 Loss to the FEHBP